

CAPITAL AND OTHER BUDGETS

Background

Washington State is on a biennial budget cycle. The Legislature authorizes expenditures for capital needs in the capital budget for a two-year period, and authorizes bond sales through passage of a bond bill associated with the capital budget. The budgets for the 2003-05 biennium cover the period from July 1, 2003 through June 30, 2005. The primary two-year budget is passed in the odd-numbered years, and a supplemental budget making adjustments to the two-year budget often is passed during the even-numbered years.

Operating Budget - The operating budget includes appropriations for the general day-to-day operational expenses of state agencies, colleges and universities, institutions, public schools, and other state services. Employee salaries, goods and services, and public assistance payments are typical operating expenses. About half of the operating budget is financed by the state general fund with the balance from federal and other funding sources.

Capital Budget - The capital budget includes appropriations for construction and repair of state office buildings, colleges and universities, prisons and juvenile rehabilitation facilities, parks, public schools, housing for low-income and disabled persons, farmworkers, and others, and for other capital facilities and programs. Nearly half the capital budget typically is financed by state-issued bonds while the rest primarily is funded by dedicated accounts, trust revenue, and federal funding sources. Unlike the operating budget, which typically uses incremental budgeting, the capital budget is a zero-based budget. The capital budget appropriates funds on a project by project basis. The budget often reappropriates moneys from previous biennia when projects have not been completed; major projects can take 4 or more years to design and construct.

Transportation Budget - The transportation budget includes the operating and capital costs of state and local highways, ferries, and motor vehicle registration and enforcement. About 75% of the transportation budget is funded by state tax sources with the balance from federal funding sources. Transportation related bonds are financed primarily through the motor vehicle fuel tax and are separate from the capital budget. In 2003, the legislature passed a transportation revenue package supporting about \$4 billion in transportation projects over the next 10 years. This included \$2.6 billion in bonds to be repaid through the increase in fuel tax of 5 cents and increased weight fees (excluded from the debt limit), while an increase of three-tenths of one percent on the sales tax on motor vehicles supports \$350 million in additional bonds (subject to the debt limit).

Budget Process

Agency budget requests generally are prepared during the summer and submitted to the Office of Financial Management (OFM). OFM evaluates these budget requests during the fall and makes recommendations to the Governor. The Governor publishes his or her budget proposals in December and submits them to the Legislature in January. The Legislature then passes the budgets with its revisions and sends them back to the Governor.

Relationship between the Capital Budget and the Operating Budget

While the proceeds of bond sales are spent under the capital budget, the operating budget pays for the debt service on the bonds. The debt service is approximately \$1.25 billion for the 2003-05 biennium, or 5.4% of the operating budget. Operating budget and policy decisions can affect the capital budget and vice versa.

Size of the Capital Budget

The size of the Capital Budget generally is determined by the available bond capacity and by the moneys available from dedicated accounts, trust funds, and other funding sources.

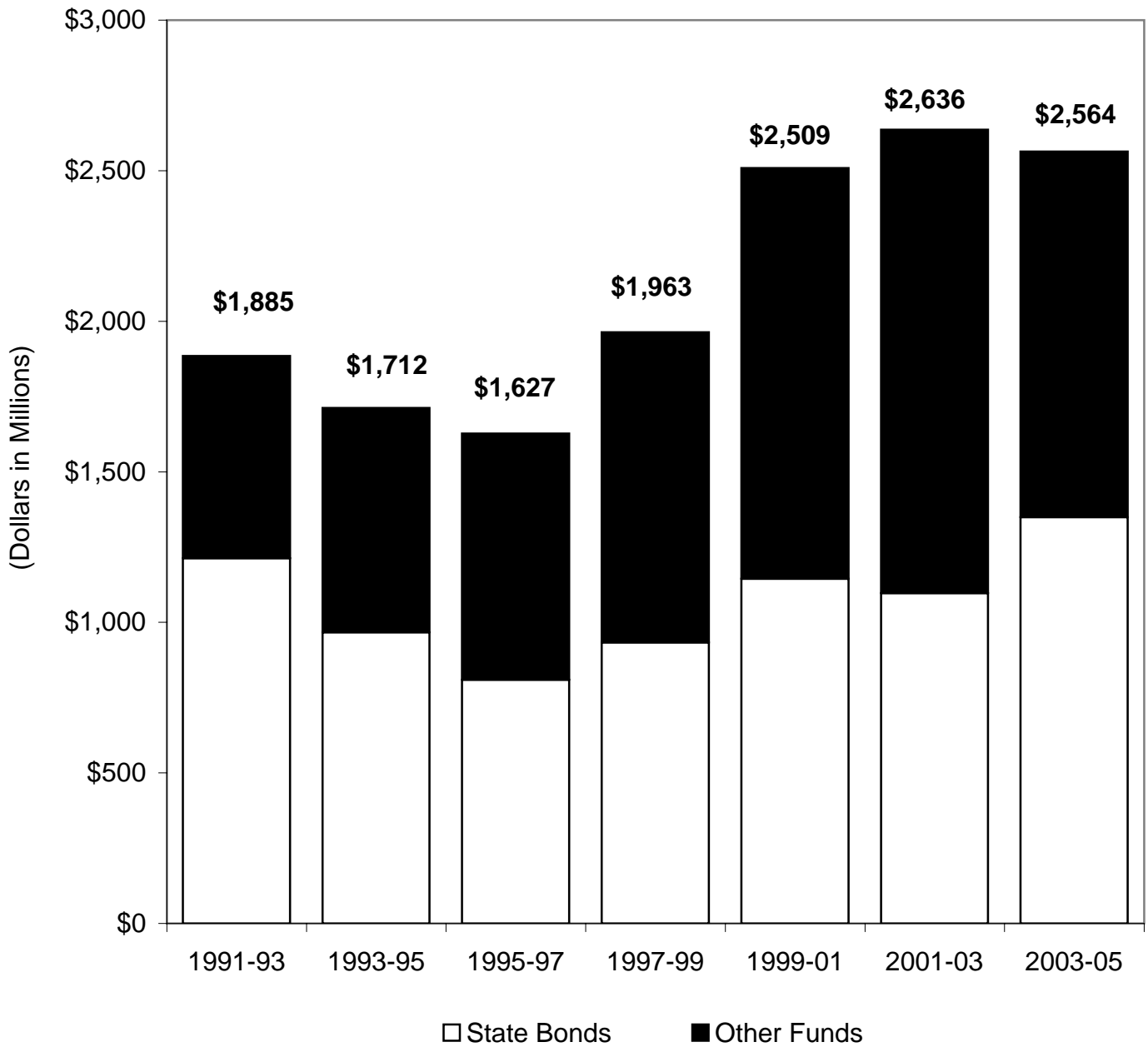
Debt limit - The amount of state bonds that can be issued in any year is limited by a constitutional debt limit and a statutory debt limit. The annual debt service (principal and interest payments) on outstanding bonds cannot exceed 9% of the three year average of general state revenues under the constitutional limit and 7% under the statutory limit. General state revenues are not the same as general fund revenues (used in the operating budget). General state revenues typically are about 90% of general fund revenues. These limits are on the amount of annual debt service, which then limits the amount of bonds that can be issued. The 2003 Legislature passed HB 2242 which increased debt/bond capacity by adding the state portion of the property tax to the statutory definition of general state revenues, effectively making the 7% statutory limit and the 9% constitutional limit the same.

Debt model - A model administered by the State Treasurer is used to estimate bond capacity for planning purposes. The model calculates the actual debt service on outstanding bonds and estimates the debt service for the future based on certain assumptions. These assumptions include future revenue and interest rates, rate of repayment, rate of issuance of the bonds, and other factors. The two primary considerations regarding bond capacity for any given year/biennium are: (1) keeping the debt service including the new bonds under the debt limit in the future; and (2) maintaining a consistent bond capacity over time so that all the capacity is not used up in one biennium resulting in little bond capacity being available in following biennia. Typically the Legislature and the Governor, in consultation with the State Treasurer, agree on the assumptions so that the discussion focuses on policy and projects and not on bond capacity. Regardless of legislative authorization, the Treasurer cannot issue bonds that would result in debt service exceeding the debt limit.

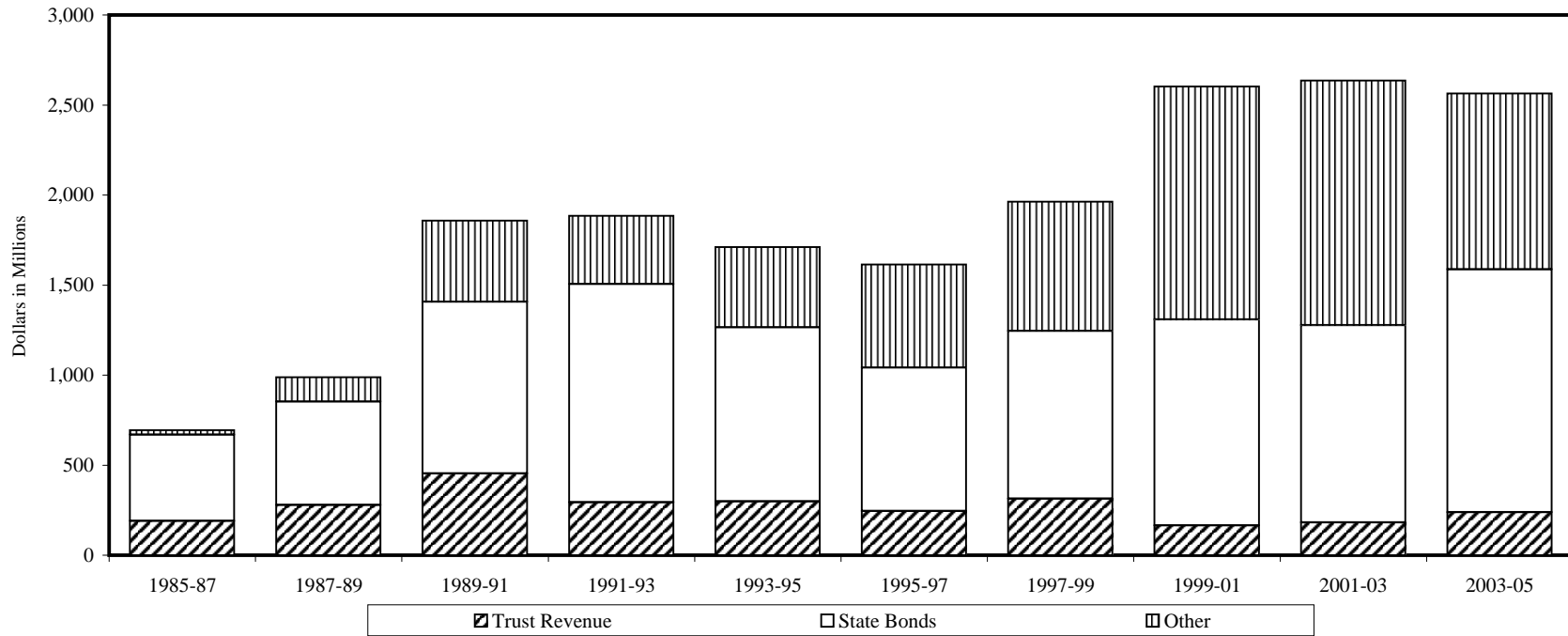
Bond Bill

A bond bill is necessary to finance the new appropriations in the Capital Budget that are funded by state bonds. The bond bill states the purpose of bonds, authorizes the State Finance Committee to issue the bonds, specifies the amount of bonds to be issued, requires legislative appropriation of bond proceeds, and pledges the full faith and credit of the state to pay the obligations. A bond bill is required by the State Constitution to have a 60 percent majority from both houses of the Legislature.

Total Appropriations in the Capital Budget (14 Year History)



History of Funding Sources in the Capital Budget

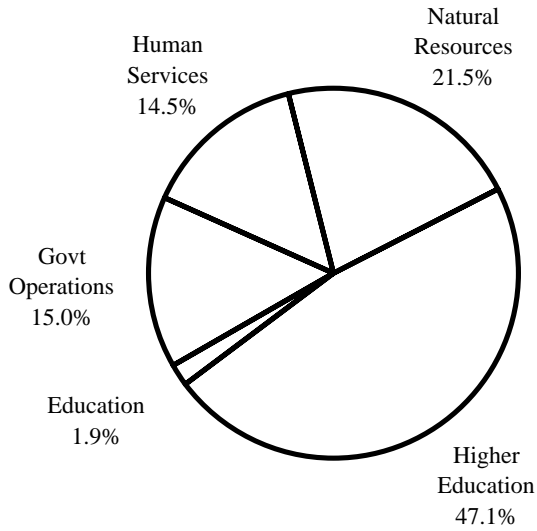


	1985-87	1987-89	1989-91	1991-93	1993-95	1995-97	1997-99	1999-01	2001-03	2003-05
Trust Revenue	190,445,950	278,401,112	454,757,587	293,279,312	298,076,864	245,920,591	313,793,314	166,026,633	181,277,206	238,896,040
State Bonds	478,418,730	574,160,100	952,598,059	1,213,347,401	966,848,111	796,039,024	931,163,886	1,142,734,926	1,095,663,982	1,349,155,257
Other	26,039,050	135,308,373	450,319,187	378,157,790	446,719,377	571,806,535	717,899,894	1,293,984,726	1,359,745,936	976,383,969
Total	694,903,730	987,869,585	1,857,674,833	1,884,784,503	1,711,644,352	1,613,766,150	1,962,857,094	2,602,746,285	2,636,687,124	2,564,435,266

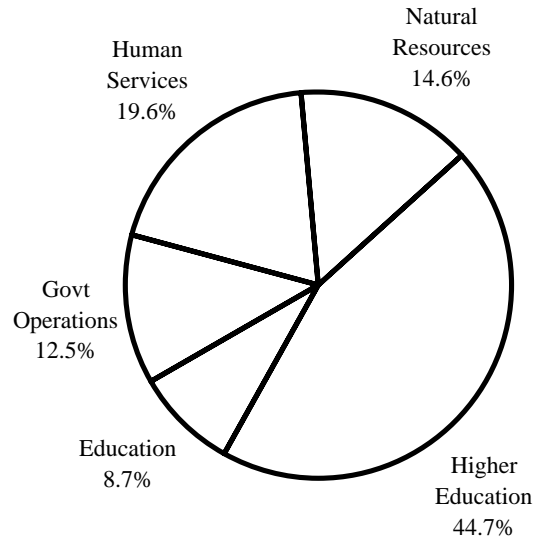
Capital Budget Summary

State Bonds

2001-03 Enacted

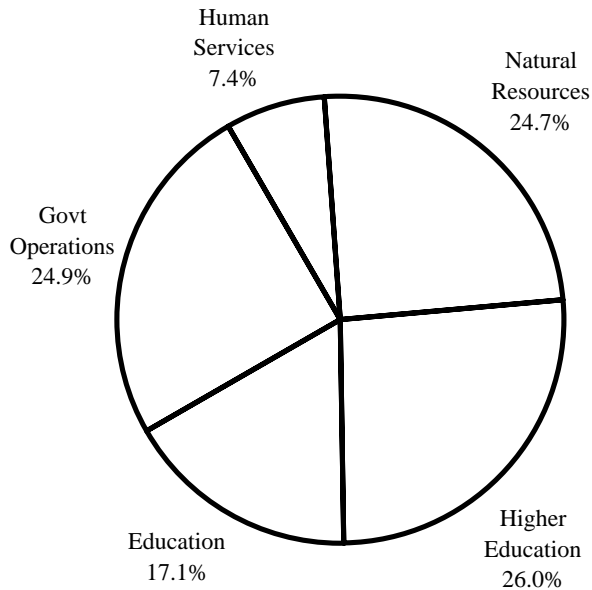


2003-05 Enacted

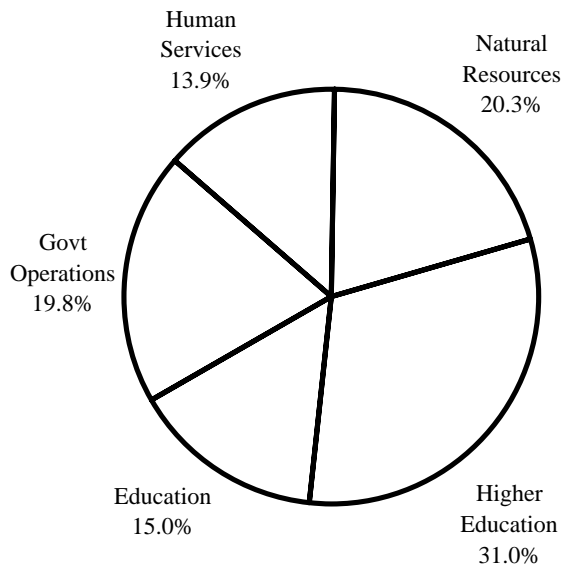


Total New Appropriations

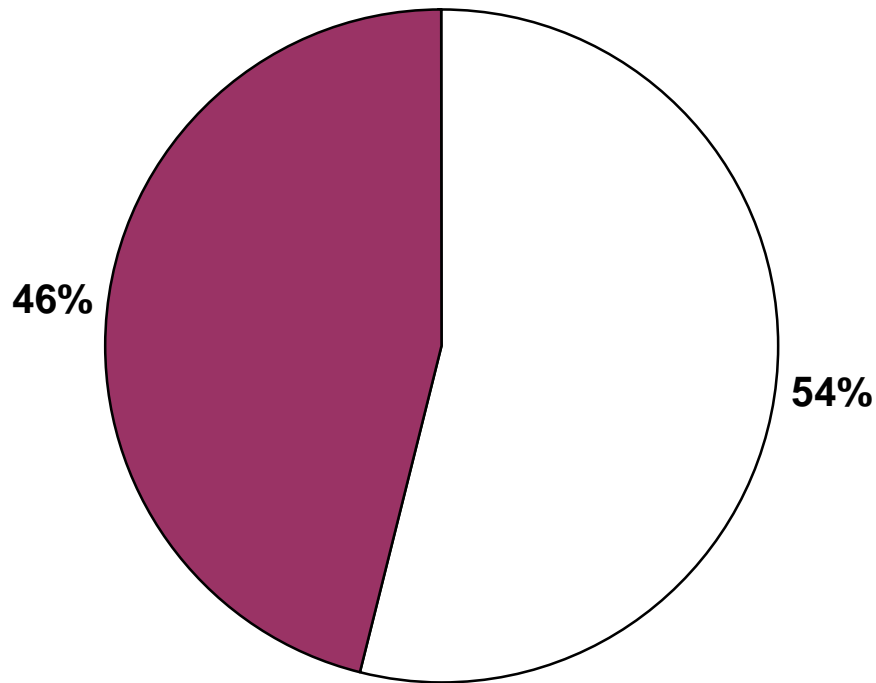
2001-03 Enacted



2003-05 Enacted



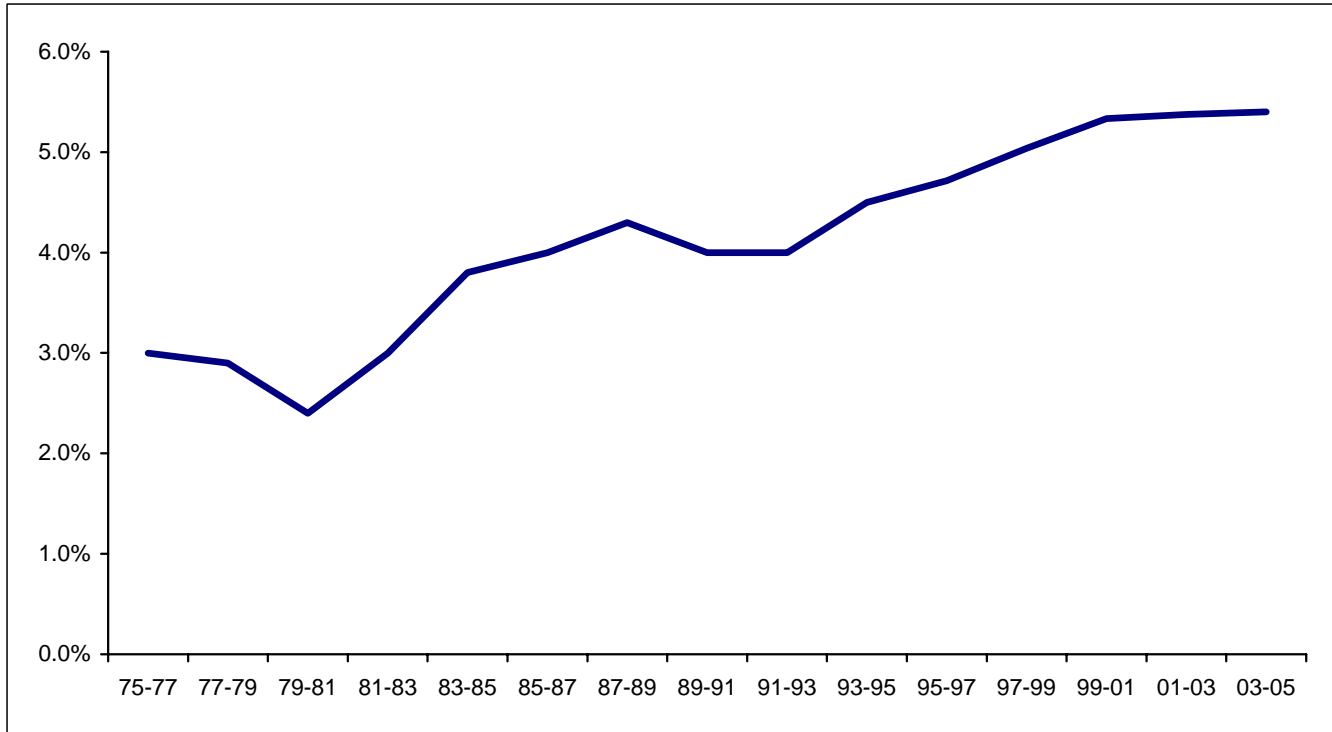
Capital Budget Funding Benefiting Local Governments/Communities



□ State/Other ■ Local Governments/Communities

Programs benefiting local governments/communities include CTED programs, Dept of Ecology and IAC programs, the K-12 school construction assistance program, and other programs.

Debt Service Payments Percent of General Fund



The estimated general fund debt service percentage for the 2009-11 biennium is 5.9% if the bond-financed base budget is \$1 billion in 05-07 (excluding Gardner-Evans and growing at 4% per biennium), and 6.4% if the base is \$1.2 billion.

General Fund debt service payments are \$1.25 billion in the 2003-05 biennium.

Capital Budget Committee Overview

Major 2003 Session Bills

- **2ESHB 2151** - Requires prioritization of proposed higher education capital projects beginning with the 2005-07 biennium budget. Two lists will be generated, one for 4-year institutions and one for community and technical colleges.
- **HB 2242** - Includes the state portion of the property tax in the statutory definition of general state revenues used for debt limit calculation purposes, effectively making the statutory debt limit and the constitutional debt limit the same.
- **SSB 5401** - The 2003-05 Capital Budget. Fiscal policy initiatives included: limiting the number of times smaller projects and programs should be reappropriated; limiting the use of bonds for projects/programs that are not clearly capital projects/programs; reviewing the funding of equipment in the capital budget; and auditing capital projects.
- **ESSB 5908** - Gardner-Evans bonds. Authorizes \$750 million in bonds to finance additional higher education projects appropriated over about 6 years.

Possible 2004 Session Issues/Requests

- Should the Legislature enact a bond bill in 2004?
- Should additional Gardner-Evans higher education projects be appropriated?
- The Legislative Building renovation and Capitol Campus governance issues.
- Should Coyote Ridge Corrections Center be expanded to add 768 medium-security beds?
- Operating budget impacts of capital budget decisions and vice versa.
- Requests to address water quality and supply issues and salmon recovery efforts.